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C O N F I D E N T I A L SECTION 01 OF 03 DAMASCUS 000710

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TREASURY FOR GLASER/SZUBIN/LEBENSON
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TAGS: [ECON](#) [EIND](#) [EINV](#) [ETRD](#) [IR](#) [SY](#)
SUBJECT: IRAN-SYRIA ECONOMIC COMMISSION MEETS TODAY AMID
LOW EXPECTATIONS

Classified By: Charge d'Affaires Stephen Seche, reasons 1.4 b/d

11. (SBU) Summary: The Syrian-Iranian Higher Economic Commission meets today in Damascus, but few contacts believe the meeting will produce any immediate results in improving the investment climate or increasing the two countries' anemic trade volume. Although the Commission is expected to address barriers to trade and investment, Syrian businessmen have expressed little interest in pursuing opportunities with Iranian partners. However, Syria potentially could benefit from even a marginal increase in trade, increased Iranian tourism, and support for Syria's ailing oil sector. However, the primary historic Syrian economic benefit- the supply of Iranian oil at concessionary prices- is not expected to be discussed, indicating that Iran is not yet ready to pay for SARG support. End summary.

Iran, Syria Begin Economic Meetings

12. (U) Iran's first Vice President Parviz Davoudi is in Damascus today for the annual meeting of the Iran-Syria Higher Economic Commission, co-chaired by Syrian Prime Minister Mohammad Utri. At the conclusion of the meeting on February 23, Prime Minister Utri and his Iranian counterpart are expected to announce the signing of a number of memoranda of understanding (MOUs), ranging from initial agreements on preferential trade and agricultural assistance, to new investments in Syria's dairy, glass, petrochemical and cement industries. In addition, the Commission is expected to discuss the development of an Iran-Iraq-Syria oil pipeline and railroad. Laying the groundwork for today's meeting, an Iranian business delegation led by Iran's Minister of Housing and Urban Development has been in Syria since Sunday. The delegation has met with Syrian business leaders to pitch joint venture projects, and visited ongoing projects in Banyas and Homs in which the Iranian government has invested financial and human capital over the past several years.

Businessmen Express Little Enthusiasm

13. (C) Most contacts with whom Post spoke dismissed the importance of an economic relationship with Iran, arguing that it is born more of political necessity than economic promise. Several independent Syrian economists point to the similar weaknesses in the two economies- double digit inflation and unemployment; an inefficient public sector; and heavy dependence on oil export revenue- as an indication that

Iran is not the economic partner Syria needs. To date, few contacts among private sector companies have expressed an interest in pursuing joint ventures with Iranian partners. The head of a leading Damascene business family stated that he lost money working with Iran in the 1980's, and would be loath to repeat the experience this time around. Though he met with the Iranian delegation, he felt strongly that it had nothing of substance to offer. He commented that its one concrete proposal, establishing a factory to produce fluted glass in Syria, lacked credibility since the Iranians do not have legal access to the necessary technology.

A Poor Track Record

14. (U) Although the SARG has used government dailies to trumpet the importance of its present and future economic ties with Iran, the track record of Iranian investment in Syria provides a weak foundation on which to build. None of the approximately \$700 million worth of public sector Iranian investments over the past several years have come to fruition. The \$200 million project to expand a cement plant near Hama has undergone five management changes since February 2004, and local press recently reported that construction is only 60% complete even though the plant was supposed to begin producing 1 million tons of cement annually by the end of last year. After a delay of six years, construction finally began on the \$208 million project to build ten cement grain silos throughout Syria after the Iranian government was able to pull together the financing. The Iranian Khodro Industrial Group, which has partnered with the Syrian El-Sultan Company to build 5,000 sedan-style cars at a plant 30 kilometers north of Damascus, still has not delivered the assembly line and spare parts for the plant although the first car was expected in January.

DAMASCUS 00000710 002 OF 003

15. (C) However, contacts believe that these and other investment projects will continue to limp along, benefiting from the significant Iranian assets, denominated in Syrian Pounds (SYP), that are being held in accounts at the Commercial Bank of Syria. These funds source back to the 1980's, when Iran and Syria last had a significant economic relationship. Syria negotiated two deals worth \$1 billion each for Iranian light crude, which Iran shipped to Syria free of charge through the Suez to the Syrian refinery in Banyas. Syria paid for the oil in SYP because it had limited reserves of foreign currency. Contacts say that the High Commission probably will negotiate how to use this money-which cannot be transferred overseas due to Syria's strict currency restrictions- to fund future investment projects.

Hope for Economic Benefit despite Problems

16. (C) Some contacts say that there are several discrete ways that Syria could modestly benefit from increased economic interaction despite the problematic history. The first is through increased trade. Although President Ahmadinejad had announced Iran's intention to sign a free trade agreement with Syria, contacts report that Iran recently insisted on discussing only a preferential trade agreement because of concerns that a free trade agreement could complicate Iran's future WTO accession negotiations. However, any trade agreement could be expected to increase the current insignificant volume of trade, which amounted to only \$60 million in 2005, \$3 million of which was Syrian exports. A contact at Nahas Enterprises, whose CEO Saeb Nahas, a Shi'a who recently stepped down as President of the Joint Business Council and who has been the primary beneficiary of Iranian business since the 1980's, stated that Syria sees Iran as a potential market for finished textiles, pharmaceuticals and agricultural products. A trade agreement also could bring low-end Iranian cars to the Syrian market duty-free, which would help meet the large demand for affordable cars and have wide populist appeal.

17. (C) The second area for improved economic relations is Iranian tourism. In the 1980's, Iran and Syria negotiated a deal to fund pilgrimages from Iran to Syria to visit Seit Zeinab, the third holiest site in Shi'a Islam. According to Fouad Sandouk, Manager of Public Relations at Nahas Enterprises, the SARG pays for the pilgrims' travel and lodging expenses from the above mentioned Iranian accounts at the CBS, and the Government of Iran gives each pilgrim \$100 from a martyrs fund for the families who lost children in the Iran-Iraq war to cover their expenses. Presently, 700-1000 Iranian pilgrims travel to Syria each week. This constitutes a significant drop from the 1980's when two 747's brought approximately twice that number each week to Syria. Contacts comment that each pilgrim spends hundreds of dollars on the local economy and sells goods that they bring with them such as carpets and pistachios, bumping up the actual volume of trade between the countries.

18. (C) The third, and least likely area for additional cooperation, is if Iran becomes a partner in increasing Syria's oil production. Our Nahas contact stated that the state-owned Syrian Petroleum Company (SPC) is counting on taking advantage of Iranian expertise to help manage Syria's declining reserves, and sees Iran as a future source for spare parts. In addition, local press announced that the High Commission is expected to discuss the development of a pipeline from Iran, via Iraq, to the refinery in Banyas, an issue that the two countries first raised in 2004. However, contacts within Syria's oil sector say that Iran's public sector companies are too poorly managed themselves to be of much assistance to the SPC, and lack the technical expertise to reverse Syria's declining oil production. In addition, there is no indication that Iran is serious about entering Syria's oil sector since no Iranian company bid for oil and gas exploration in the SARG's recent bidding rounds.

19. (C) Comment: So far, Iran has brought very little to the table economically. The meetings of the High Commission today and tomorrow will produce announcements of new MOUs for a range of questionable investment projects between inefficient and money-losing public sector companies. There

DAMASCUS 00000710 003 OF 003

is little indication that these projects will fare differently from the projects that have floundered for years. The economic relationship between these two countries cannot be expected to become more serious until they begin discussing issues like restarting the supply of low-cost oil to Syria, which formed the foundation of the two countries' economic relationship in the 1980's. The two countries appear content at present to announce MOUs that are more important for their media impact than their economic substance.
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